



August 2024

Economic Research Division

Alper Gürler
Division Head
alper.gurler@isbank.com.tr

H. Erhan Gül
Unit Manager
erhan.gul@isbank.com.tr

Dilek Sarsın Kaya
Asst. Manager
dilek.kaya@isbank.com.tr

Berkay Arık
Asst. Economist
berkay.arik@isbank.com.tr

Oktay Erkan Temizkan
Asst. Economist
erkan.temizkan@isbank.com.tr

Hilal Büşra Ceylan
Asst. Economist
busra.ceylan@isbank.com.tr

Global Economy

In the July update of its World Economic Outlook report, the IMF maintained its global economic growth forecast for 2024 at 3.2%, while raising it by 0.1 percentage points to 3.3% for 2025.

According to preliminary data, the US economy grew by an annualized 2.8% in the second quarter of 2024, above market expectations. Data releases for July pointed to a loss of momentum in economic activity.

While Fed kept its policy rate unchanged at its July meeting, markets are confident that the Bank will make its first rate cut at the September meeting.

According to preliminary data, Euro Area grew by 0.6% yoy in the second quarter of 2024, slightly above expectations, while July inflation data slightly exceeded expectations.

While the ECB kept its policy rate unchanged at its meeting on July 18, it reiterated that the data-driven approach to interest rate cuts will be maintained.

While PBoC and BoE cut policy rates at their last meetings, BoJ raised its short-term reference rate to 0.25% from the previous range of 0%-0.1%.

Chinese economy grew below expectations in the second quarter of the year due to the stagnation in domestic demand and the ongoing problems in the real estate sector.

Despite geopolitical tensions, oil and other commodity prices generally declined in July amid concerns over global demand.

Turkish Economy

In May, seasonally adjusted unemployment rate decreased by 0.1 percentage points to 8.4%, while the labor underutilization rate declined to 25.2%.

According to seasonally and calendar adjusted data, industrial production index increased by 1.7% mom in May due to the low base effect.

ICI Türkiye manufacturing PMI declined to 47.2 in July, indicating that challenging operating conditions in the sector became more evident.

While the current account recorded a deficit of 1.2 billion USD in May, 12-month cumulative current account deficit decreased to 25.2 billion USD.

Central government budget posted a deficit of 275.3 billion TRY in June. In the first half of the year, total budget deficit increased by 54.6% yoy to 747.2 billion TRY.

In July, monthly CPI inflation accelerated to 3.23%, while annual CPI inflation declined to 61.78% due to the base effect. Domestic PPI increased by 1.94% mom and 41.37% yoy .

CBRT kept the policy rate unchanged at 50% in its July meeting in line with market expectations.

Moody's upgraded Türkiye's sovereign credit rating by two notches to B1 and kept its credit rating outlook as "positive".

In July, USD/TRY rose by 1.5% compared to the end of June, while BIST-100 index displayed a flat outlook.

Turkish Economy.....	2
Financial Markets	8
Banking Sector.....	9
Concluding Remarks.....	10
Graphs.....	11
Tables.....	13

Leading Indicators

The unemployment rate fell to 8.4% in May.

Seasonally adjusted unemployment rate decreased by 0.1 percentage point to 8.4% in May, the lowest level since September 2012. This development was mainly driven by the increase in employment by 273K people against 245K people in labor force. Thus, labor force participation and employment rates rose by 0.3 and 0.4 percentage points to 54.5% and 50%, respectively. The labor underutilization rate, which is considered as the broadest unemployment rate, decreased by 2 percentage points month-over-month to 25.2%.

Industrial production decreased by 0.1% year-over-year in May.

According to seasonally and calendar adjusted data, industrial production index increased by 1.7% mom in May. This was mainly due to the base effect of low production during the bridge days between holidays and weekends in April. The monthly increase in industrial production was led by the manufacturing sector, where production activities expanded by 2.1% mom, while the production of mining and quarrying sector contracted by 3.9% mom. Among the sub-items of the manufacturing industry, production increased in 16 out of 24 sectors in May. According to calendar adjusted figures, industrial production decreased by 0.1% yoy in May, while it declined by 0.4% in April-May period compared to the same period of 2023, indicating that production activities in the sector remained weak in the second quarter of the year. On the other hand, services production index increased by 1.3% mom and 0.8% yoy in May, indicating that the activity in the services sector followed a relatively favorable course.

Manufacturing PMI declined to 47.2 in July.

Turkish manufacturing PMI, published by the Istanbul Chamber of Industry (ICI), declined to 47.2 in July from 47.9 in June, indicating that the weakness in the sector's operating conditions became more evident. An analysis of the sub-items of the index revealed that new orders, including export orders, continued to display a negative outlook in this period, while production contracted the most significantly since November 2022. While the decline in employment continued for the sixth month, survey participants stated that resignations and retirements were also effective in the decline in July. In this period, with the rise in raw material and energy prices, the rise in input costs and final product prices remained higher compared to June. However, the sharp rise in input costs was reflected on final product sales prices at a relatively lower rate due to weak demand conditions. Moreover, difficulties in raw material procurement and high transportation costs led to longer delivery times and a significant decline in purchasing activities.

Retail sales volume continued to decline on a monthly basis in May.

According to seasonally and calendar adjusted data, trade sales volume index contracted by 3.4% mom in May. In this period, wholesale sales volume index and retail sales volume index decreased by 5.1% and 0.2% mom, respectively. In May, sales volume of food, beverages and tobacco products increased slightly by 0.1% mom, while the decline in sales of non-food products (0.2%) and automotive fuel (1.1%) confirmed the weakening in demand conditions. The limited increase of 0.3% in card expenditures, published by CBRT, compared to the previous month in real terms according to the CPI rate in June also pointed to the ongoing weakness in demand conditions.

Confidence indices...

According to seasonally and calendar adjusted data, consumer confidence index decreased by 3.1% mom to 75.9 in July, the lowest level in the last 8 months. According to the components of the index, expectations for household's financial and general economic situation in the next 12 months declined by 4.2% and 7% mom, respectively. In July, seasonally adjusted real sector confidence index decreased by 1.8 points mom to 98.7, the lowest level since June 2020, painting a negative picture for the manufacturing industry. In the same period, sectoral confidence indices decreased by 1.7 points in retail trade, 1.3 points in services and 0.8 points in construction. Thus, the economic confidence index, which was 95.8 in June, decreased by 1.4 points to 94.4 in July.

House sales declined by 5.2% yoy in June.

According to the data released by CBRT, house price index rose by 45% yoy in May, recording the slowest annual increase since October 2021. Thus, the real decline in house prices was recorded as 14.9% in May. On the other hand, house sales continued to decline in June due to the high levels of house prices and borrowing costs. According to data released by TURKSTAT, house sales decreased by 5.2% yoy to 79,313 units in June. In this period, mortgaged sales almost halved on an annual basis, while the share of mortgaged sales in total sales dropped to 8.6%. Thus, total house sales decreased by 3.7% compared to the same period of last year to 545,074 units in the first six months of the year.

According to the data released by Automotive Distributors and Mobility Association, the contraction in the automotive market accelerated in July. The annual contraction in the automobile and light commercial vehicle market, which was 5.3% in June, was recorded as 17.5% in July despite the campaigns implemented by companies. In January-July period, the total market presented a relatively flat outlook compared to the same period of last year.

Source: CBRT, Datastream, ICI, TURKSTAT, MoTF

Foreign Trade and Balance of Payments

Foreign trade deficit narrowed by 48% yoy in May.

According to foreign trade data released by Turkstat, exports increased by 11.3% yoy to 24.1 billion USD in May, while imports decreased by 10.4% yoy to 30.6 billion USD. Hence, foreign trade deficit narrowed by 48% yoy to 6.5 billion USD in this period. Import coverage ratio, which was 63.4% in May 2023, reached the highest level of 2024 with 78.7% in the same month of this year.

Current account deficit was realized as 1.2 billion USD in May.

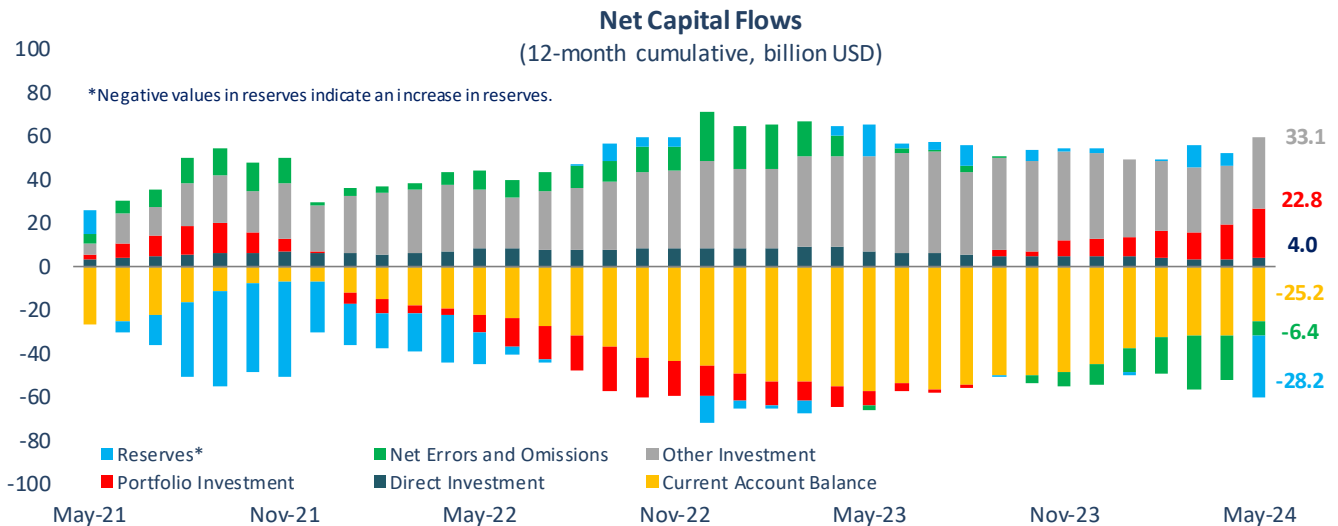
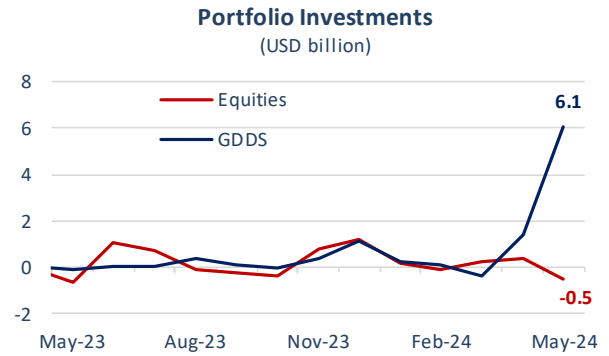
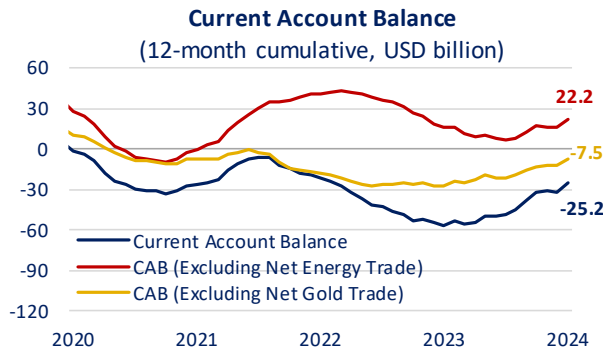
Current account deficit decreased by 84.1% yoy to 1.2 billion USD in May. In this period, balance of payments-defined foreign trade deficit, which narrowed by 60% yoy to 4.2 billion USD, supported the decline in the current account deficit. Moreover, the rise in services inflows, led by a 18% increase in tourism revenues, also had a positive impact on the current account balance outlook. In May, net non-monetary gold imports and net energy imports decreased to 1 billion USD and 3.5 billion USD, respectively, so that current account balance excluding gold and energy posted a surplus of 3.3 billion USD. 12-month cumulative current account deficit narrowed to 25.2 billion USD in May, the lowest level since June 2022.

Highest inflow of the calendar year in equity capital investments...

Net capital inflows related to non-residents' real estate purchases were weak in May with 189 million USD. On the other hand, equity capital investments came in at the highest level in 2024 with 582 million USD in May. Thus, foreign direct investments recorded a net capital inflow of 361 million USD. In this period, residents' net asset acquisition of financial assets was realized as 713 million USD, the highest level of the last 5 months, and limited net foreign direct investments.

The fastest capital inflow of the last 7 years in portfolio investments...

In May, net capital inflow in portfolio investments was realized as 5.6 billion USD, the highest level since May 2017. The capital inflow of 6.9 billion USD in debt securities market was influential in this development. On the other hand, the net capital outflow of 529 million USD in the equity market in May limited the positive outlook in portfolio investments to some extent. Thus, stock market recorded the fastest capital outflow of the last one year.

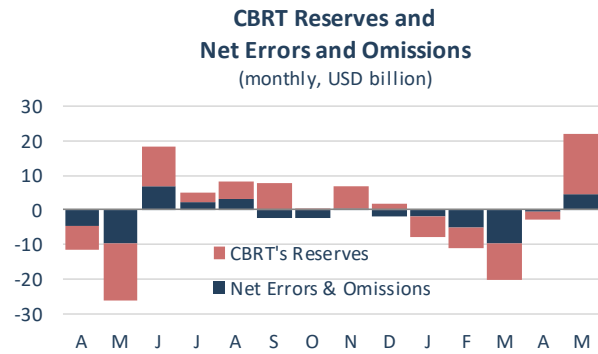


Source: Datastream, Turkstat, CBRT

Foreign Trade and Balance of Payments

Capital inflows in other investments accelerated in May.

In May, net capital inflow in other investments item was realized as 8.4 billion USD, the highest level since August 2022. In this period, domestic banks reduced currency and deposit holdings in foreign correspondents by 4.5 billion USD, which was the main factor supporting the favorable outlook in other investments. In May, banking sector's net borrowing from abroad was realized as 3.4 billion USD, while other sectors' net borrowing was limited with 356 million USD. According to 12-month cumulative figures, long-term debt rollover ratio was 127.6% in the banking sector and 99.8% in other sectors as of in May.



Record high increase in reserve assets...

In May, reserve assets recorded a record high increase of 17.6 billion USD, led by FX assets. In this period, net errors and omissions recorded a capital inflow for the first time since November 2023, with 4.5 billion USD.

Expectations...

Preliminary data released by the Ministry of Trade pointed out that foreign trade deficit widened rapidly on an annual basis in June. In this period, the annual contraction in imports was accompanied by exports. On the other hand, we think that the rise in tourism revenues will limit the foreign trade deficit-driven widening in the current account deficit in June. On the financing side of the current account deficit, portfolio inflows slowed down in June after the strong inflow in May. In the medium term, foreign direct investment news, especially related to the automotive sector, signal a positive development in terms of the financing quality of the current account deficit.

Balance of Payments	(USD million)				
	May. 2024	Jan. - May. 2023	Jan. - May. 2024	% Change	12-month Cumulative
Current Account Balance	-1,235	-37,449	-17,614	-53.0	-25,191
Foreign Trade Balance	-4,199	-47,154	-26,372	-44.1	-66,131
Services Balance	4,724	14,816	15,101	1.9	52,844
Travel (net)	3,915	11,619	12,660	9.0	42,635
Primary Income	-1,607	-5,198	-6,276	20.7	-12,307
Secondary Income	-153	87	-67	-	403
Capital Account	-13	-72	-23	-68.1	-156
Financial Account	3,224	-52,755	-30,007	-43.1	-31,776
Direct Investment (net)	-361	-2,118	-1,504	-29.0	-4,033
Portfolio Investment (net)	-5,637	2,947	-11,517	-	-22,806
Net Acquisition of Financial Assets	748	2,389	7,547	215.9	8,027
Net Incurrence of Liabilities	6,385	-558	19,064	-	30,833
Equity Securities	-529	-1,594	117	-	3,098
Debt Securities	6,914	1,036	18,947	1,728.9	27,735
Other Investment (net)	-8,371	-15,851	-9,469	-40.3	-33,126
Currency and Deposits	-4,468	-10,598	-1,108	-89.5	-13,897
Net Acquisition of Financial Assets	-4,216	6,930	5,152	-25.7	2,494
Net Incurrence of Liabilities	252	17,528	6,260	-64.3	16,391
Central Bank	-1,142	13,697	-1,418	-	-1,603
Banks	1,394	3,831	7,678	100.4	17,994
Foreign Banks	739	2,813	5,384	91.4	12,763
Foreign Exchange	-368	850	1,142	34.4	7,435
Turkish Lira	1,107	1,963	4,242	116.1	5,328
Non-residents	655	1,018	2,294	125.3	5,231
Loans	-3,894	-930	-7,103	663.8	-17,396
Net Acquisition of Financial Assets	-144	603	-145	-	-2,408
Net Incurrence of Liabilities	3,750	1,533	6,958	353.9	14,988
Banking Sector	3,420	1,424	6,741	373.4	12,924
Non-bank Sectors	356	423	285	-32.6	1,157
Trade Credit and Advances	2	-4,314	-1,252	-71.0	-1,889
Other Assets and Liabilities	-11	-9	-6	-33.3	56
Reserve Assets (net)	17,593	-37,733	-7,517	-80.1	28,189
Net Errors and Omissions	4,472	-15,234	-12,370	-18.8	-6,429

Source: CBRT, Datastream

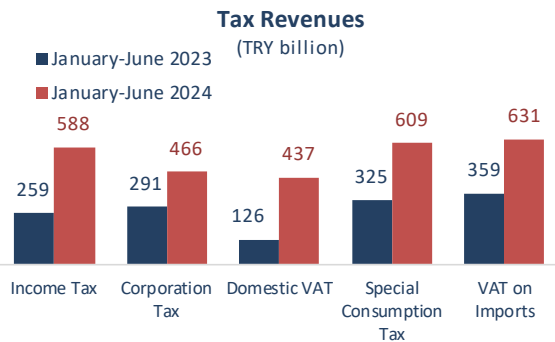
Budget Balance

Central government budget posted a deficit of 275.3 billion TRY in June.

In June, central government budget posted a deficit of 275.3 billion TRY. In this period, central government budget revenues increased by 120.4% yoy to 591.2 billion TRY, while budget expenditures rose by 77.6% yoy to 866.5 billion TRY. Primary budget deficit was realized as 176 billion TRY. In the first half of the year, budget deficit widened by 54.6% compared to the same period of last year and became 747.2 billion TRY.

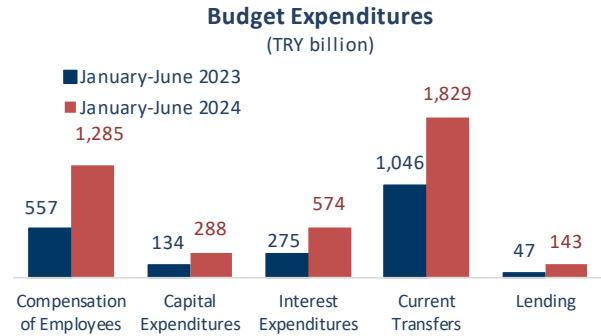
Tax revenues were realized as 483.1 billion TRY in June.

In June, tax revenues increased by 109% yoy to 483.1 billion TRY. This increase was mainly driven by the fact that domestic VAT revenues, which decreased by 2.8 billion TRY in June 2023 due to collection deferrals and refund mechanism, were realized as 80.7 billion TRY this June. Income tax revenues increased by 130.7% yoy (60.2 billion TRY) to 106.2 billion TRY in June. In the same period, despite the rapid surge in Special Consumption Tax (SCT) on petroleum and natural gas (350.5%), limited increases in SCT on motor vehicles (13.1%) and tobacco products (10.2%) led to a moderate rise in total SCT revenues (by 51.4% yoy, 37.9 billion TRY) compared to previous months. In June, non-tax revenues rose by 191.6% yoy. In this period, "grants-aids and special revenues" item increased around 10-fold yoy, while "interest, shares and fines" item, which was led by interest revenues, surged by 208.7% yoy.



Interest expenditures rose by 165.6% yoy in June.

Interest expenditures increased by 165.6% yoy to 99.3 billion TRY in June. In this period, lending expenses went up by 274.2% yoy, and capital expenditures surged by 184% yoy, led by the rise in immovable capital produce. Compensation of employees rose by 92.9% yoy in June, while current transfers increased by 44.7% yoy, below the CPI inflation. In June, 96 billion TRY was paid to social security corporations from the duty loses expenses, and 14.3 billion TRY was transferred to State Railways (TCDD) from the lending item.



Expectations...

In the first half of the year, the budget deficit constituted 28.2% of this year's annual budget target. In the second half of the year, the effects of the austerity measures on public expenditures and the tax package submitted to the National Parliament on July 16 will be decisive on the performance of the budget balance.

Central Government Budget

	June			January-June			MTP Target	Real./ MTP Target (%)
	2023	2024	% Change	2023	2024	% Change		
Expenditures	487.9	866.5	77.6	2,363.6	4,578.5	93.7	11,089.0	41.3
Interest Expenditures	37.4	99.3	165.6	275.2	574.4	108.7	1,254.0	45.8
Non-Interest Expenditures	450.5	767.2	70.3	2,088.3	4,004.1	91.7	9,835.0	40.7
Revenues	268.2	591.2	120.4	1,880.3	3,831.4	103.8	8,437.1	45.4
Tax Revenues	231.2	483.1	109.0	1,602.3	3,213.4	100.5	7,407.7	43.4
Other Revenues	37.1	108.1	191.6	278.0	618.0	122.3	1,029.4	60.0
Budget Balance	-219.6	-275.3	25.3	-483.2	-747.2	54.6	-2,651.9	28.2
Primary Balance	-182.3	-176.0	-3.4	-208.0	-172.8	-16.9	-1,397.9	12.4

Numbers may not add up to total value due to rounding.

Source: Datastream , Ministry of Treasury and Finance

Inflation

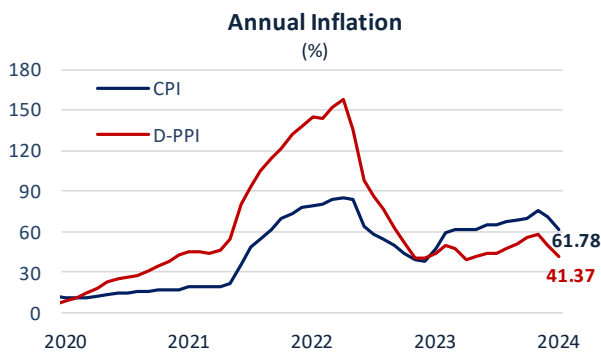
CPI increased by 3.23% mom in July.

In July, CPI increased by 3.23% mom, slightly below the market expectations. According to the Reuters poll, consumer prices were expected to increase by 3.45% mom. Thus, monthly CPI inflation gained momentum in this period, while annual CPI inflation continued to decline due to the high base effect, shrinking to its lowest level since October 2023. In the same period, domestic producer price index (D-PPI) increased by 1.94% mom, while annual D-PPI inflation fell to 41.37%.

July (change %)	CPI		D-PPI	
	2023	2024	2023	2024
Monthly	9.49	3.23	8.23	1.94
Year-to-Date	31.14	28.76	24.27	21.81
Annual	47.83	61.78	44.50	41.37
Annual Average	57.45	65.93	78.51	47.55

Housing group stood out in monthly CPI inflation.

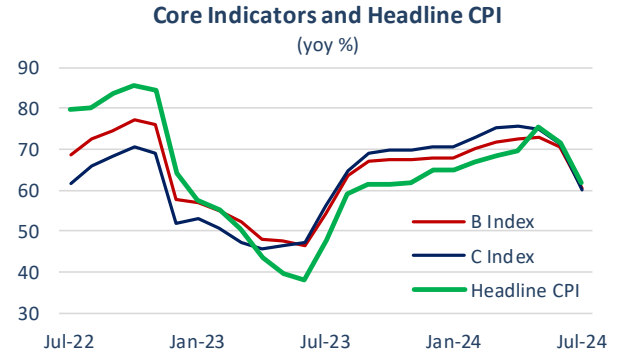
Prices increased in 11 out of 12 main expenditure groups in July. Following June, housing group posted the fastest monthly price increase (8.08%) in July as well, and pushed the monthly CPI inflation up the most (by 1.19 pts). Transportation group, where prices increased by 3.82% mom, above the headline CPI, pushed the monthly inflation up by 0.62 pts. In this period, monthly inflation in alcoholic beverages and tobacco group was 5.84% mom due to the price hike in these products, while monthly inflations in education (1.38%), household equipments (1.68%), as well as food and non-alcoholic beverages (1.83%) remained relatively moderate. In the same period, clothing and footwear prices declined by -2.58% and limited the monthly inflation slightly.



Seasonal products limited the CPI inflation in July.

CPI excluding seasonal products rose above the headline CPI by 3.64% mom in July, recording the fastest monthly increase since February. In this period, B (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (CPI excluding energy, food and non-alcoholic

beverages, alcoholic beverages, tobacco and gold) indices posted relatively moderate monthly increases of 2.47% and 2.45%, respectively. Thus, B and C indices recorded the lowest annual increases in a year.



The divergence between goods and services inflation continued in July. In this period, monthly price increases were realized as 2.71% in goods and 4.39% in services. Energy prices, which recorded the fastest monthly rise since August 2023 with 10%, were the main driver of goods inflation in July, while alcoholic beverages, tobacco and gold prices also went up rapidly by 5.5% mom. In the services group, rent was the fastest rising item with 7.04% mom.

The rise in electricity prices was the main driver of monthly D-PPI inflation.

Electricity and gas prices increased the fastest by 7.37% mom in July, and pushed the monthly D-PPI inflation up the most by 0.61 pts. In this period, textiles (0.21 pts), coke and refined petroleum products (0.19 pts) and other non-metallic mineral products (0.17 pts) were the other items that increased monthly D-PPI inflation the most. In July, producer prices of coal and lignite (-1.66%) and tobacco products (-2.70%) decreased on a monthly basis.

Expectations...

In July, monthly inflation accelerated compared to June due to administered prices and tax adjustments. On the other hand, annual CPI inflation continued to decline thanks to the high base effect. The increase in natural gas prices at the beginning of August is likely to continue the upward trend in energy prices in the upcoming period. The recent rise in geopolitical risks as well as the recession concerns for the US economy will also be decisive for the course of inflation.

Financial Markets

	28-Jun	31-Jul	Change
5-Y CDS (basis points)	276	264	-12 bp ▼
TR 2-Y Benchmark Yield	41.59%	42.42%	83 bp ▲
BIST-100	10,648	10,639	-0.1% ▼
USD/TL	32.6485	33.1401	1.5% ▲
EUR/TL	35.0451	35.8774	2.4% ▲
Currency Basket*	33.8468	34.5088	2.0% ▲

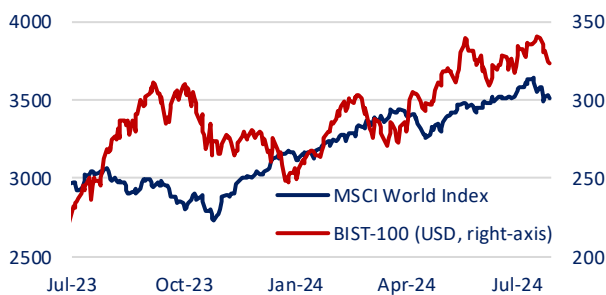
(*) (0.5 USD/TRY + 0.5 EUR/TRY)

Risk appetite recorded a limited increase in July.

In the first half of July, global risk appetite increased slightly due to the favorable inflation indicators in the US, while in the second half of the month, lower-than-expected balance sheet results of technology companies in the US weighed on global risk appetite. The fluctuations in stock indices caused the VIX index to rise to 18.46 during the month, its highest level since April. In July, the US 10-year bond yield declined by 24 basis points to 4.1%, while the DXY fell by 1.7% and USD/JPY fell by 6.5% due to the BoJ's interest rate hike during the month. On the other hand, the non-farm payrolls data released in the US in the first days of August brought recession concerns to the agenda as well as rising geopolitical concerns caused an intense selling wave in global markets. The depreciation of the US dollar continued in the first days of the new month as the market expectation for a rate cut by the Fed in 2024 increased to at least 100 basis points.

Domestic markets followed a floating course in July and diverged negatively from global markets. BIST-100 index, which set a new record during the month, closed July at 10,638.58 with a limited increase of 0.1% due to profit sales. In July, USD/TRY and EUR/TRY rose by 1.5% and 2.4%, respectively. Türkiye's 5-year CDS risk premium decreased by 12 basis points on a monthly basis and ended July at 264 basis points. In the first days of August, deterioration in global risk sentiment had a negative impact on domestic markets as well.

MSCI World Index and BIST-100



Non-residents' securities portfolio...

According to CBRT's securities statistics, as of July 26, non-residents' price and FX rate adjusted equity portfolio increased by 94 million USD since the end of June, while

GDPS portfolio rose by 3.4 billion USD in the same period. Thus, since the end of 2023, foreign capital outflow from the stock market was 1.2 billion USD, while foreign capital inflow to the bond market was 13.7 billion USD. As of July 26, CBRT's gross reserves and net reserves were 148 billion USD and 47.6 billion USD, respectively.

Households' inflation expectations rose slightly.

CBRT's Sectoral Inflation Expectations report pointed out that the inflation expectations of market participants, households and the real sector continued to diverge from each other. According to the report, in July, 12-month-ahead annual inflation expectations of market participants and the real sector decreased by 1.8 and 1.2 points to 30% and 55%, respectively. Following a downward trend in the second quarter of the year, households' inflation expectations increased by 0.5 points to 72% in July. In addition, the share of households expecting a fall in inflation in the next 12 months decreased by 4.2 points compared to the previous month and was realized as 29.3%.

CBRT kept the policy rate unchanged.

At its meeting held on July 23, CBRT kept the policy rate unchanged at 50%, in line with the expectations. In the press release, CBRT stated that the underlying trend of monthly inflation recorded a significant weakening in June. On the other hand, leading indicators suggest that monthly inflation will rise temporarily in July due to administered price and tax adjustments and supply-side developments in unprocessed food prices, which are relatively outside the scope of monetary policy, but the rise in the underlying trend of inflation is expected to remain relatively limited. It was emphasized that the Committee maintained its cautious stance against upside risks to inflation and reiterated that the monetary policy stance would be tightened in case of a significant and persistent deterioration in inflation. CBRT also stated that the decisive stance in monetary policy would bring down the underlying trend of monthly inflation and strengthen the disinflation process by stabilizing domestic demand, real appreciation in the Turkish lira and improving inflation expectations.

Moody's upgraded Türkiye's credit rating.

International credit rating agency Moody's upgraded Türkiye's sovereign credit rating by two notches to B1 and kept its outlook as "positive" on July 19. Pointing to the normalization in economic policies as a justification for the rating upgrade, the agency shared the view that inflationary pressures will decrease in 2025 as domestic demand stabilizes. The Agency also pointed out that the credit rating could be upgraded if inflation is sustainably reduced, and the current account balance outlook improves.

Source: CBRT, Datastream, Reuters,

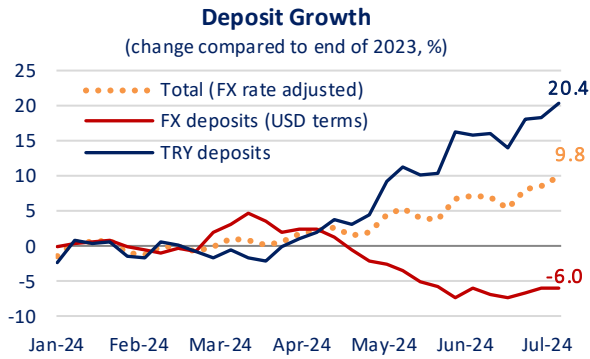
Banking Sector

FX deposit volume declined to 188.7 billion USD.

According FX deposit volume increased in July.

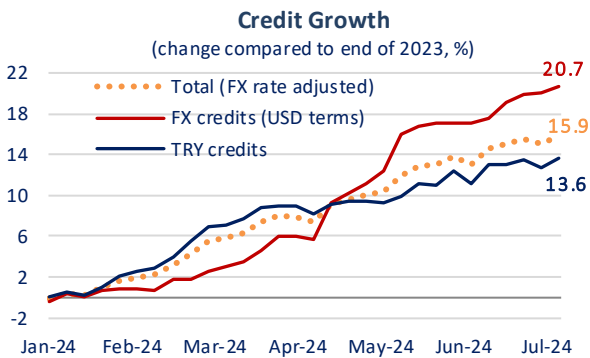
According to the weekly data released by BRSA, as of July 26, TRY deposits in the banking sector expanded by 20.4% compared to the end of 2023 and reached 10.7 trillion TRY. As of the same date, FX deposit volume in USD terms increased by 1.2% compared to the end of June, while decreasing by 6% ytd to 190.9 billion USD. Against this background, the share of TRY deposits in total deposits rose to 63.2% as of July 26 from 59.8% at the end of 2023.

In line with the exit strategy from FX-Protected Deposits (FXPD), the volume of FXPD continued to contract and decreased by 9.1% compared to end-June to 1.8 trillion TRY as of July 26, while the share of FXPD in TRY deposits declined to 17.1%. According to CBRT data, as of June, the FX-protected deposits composition was 63.8 billion USD in FX-/gold-converted deposit/participation accounts and 25.1 billion TRY in Turkish lira deposit/participation accounts. As of the same period, 45.7 billion USD of the 63.8 billion USD FXPD accounts was held by real persons and 18.1 billion USD by legal entities.



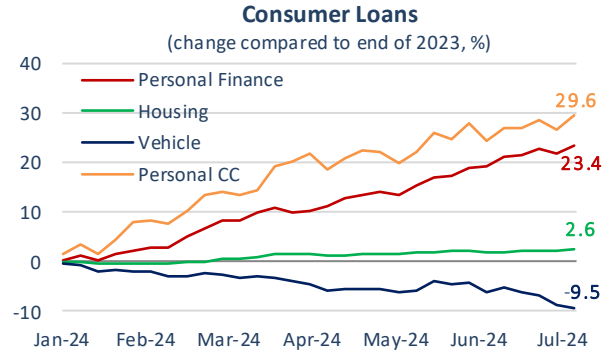
The increase in FX loan volume gained momentum in July.

As of July 26, TRY loan volume in the banking sector increased by 13.6% compared to the end of 2023 and reached 8.9 trillion TRY. The rise in FX loan volume in USD terms gained momentum in July, and became 20.7% ytd as of July 26. Thus, total loan volume of the banking sector increased by 20.4% ytd and reached 14 trillion TRY as of July 26.



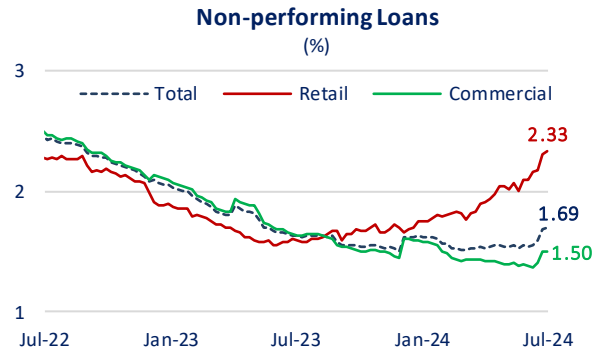
Vehicle loans contracted by 4.4% compared to end-June.

As of July 26, compared to end-June, housing loans remained flat, while vehicle loans contracted by 4.4%. Compared to end-2023, housing loans recorded a limited increase of 2.6%, while vehicle loans declined by 9.5%. As of July 26, general purpose loans increased by 1.7% compared to the end of June and expanded by 23.4% ytd. Retail credit card expenditures, which displayed a volatile outlook in July, continued to grow at a relatively fast pace with an increase of 29.6% ytd.



Non-performing loans ratio increased in July.

As of July 26, non-performing loans ratio increased to 2.33% in retail loans and 1.50% in commercial loans. Thus, the banking sector's non-performing loans ratio became 1.69% in this period.



Foreign currency net general position...

As of July 26, on-balance sheet FX position of the banking sector was (-)16,853 million USD while off-balance sheet FX position was (+)18,657 million USD. Thus, net foreign currency position was realized as (+)1,804 million USD.

Source: BRSA Weekly Bulletin

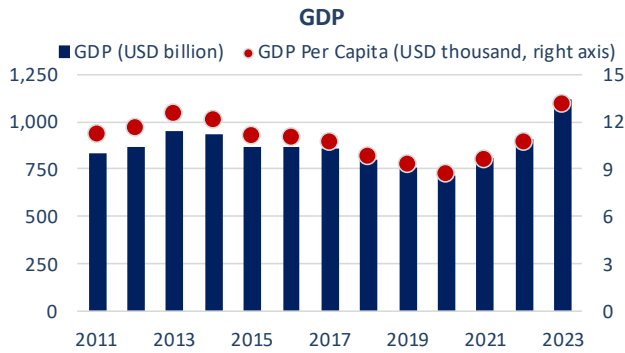
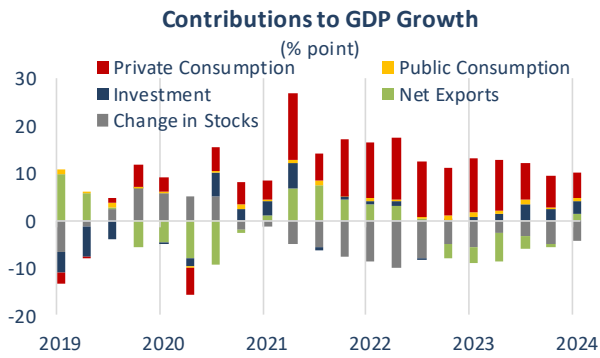
Concluding Remarks

Growth data for the second quarter of the year indicated that the US and the Euro Area outperformed expectations, while economic activity in China remained weak due to the failure of the expected recovery in domestic demand. While the ongoing geopolitical tensions as well as the rigidity in service prices keep inflationary risks on the agenda in general, the differences in inflation and economic performance among major economies lead to diverging central bank actions. Within July, Fed and ECB preferred to wait by keeping interest rates unchanged, while in UK, where inflation targets are reached, and in China, where deflationary risks persist, central banks choose to cut interest rates. The Bank of Japan, which hiked its policy rate to positive territory after a long time in March, continued its tightening steps with a new rate hike. Global markets started the new month with high volatility due to geopolitical tensions as well as data releases in the US that raised recession concerns. Markets are pricing in a rapid rate cut process by the Fed, starting from September.

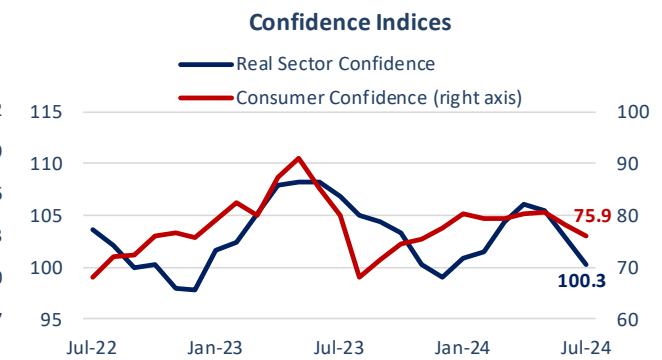
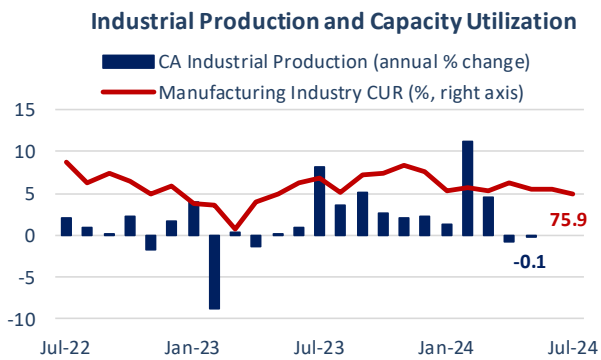
In Türkiye, leading indicators suggest that the strong outlook in domestic demand was largely maintained in the second quarter, albeit with some deceleration compared to the first quarter. On the other hand, as the lagged effects of tight monetary policy became more evident in the second half of the year, the slowdown in domestic demand became more apparent. Although the improvement in the underlying trend of monthly inflation was interrupted in July, annual inflation continued to decline with high base effect. The impact of recently heightened geopolitical risks and recession concerns in the US on both economic activity and inflation in Türkiye will be closely monitored in the upcoming period.

Turkish Economy - Macroeconomic Indicators

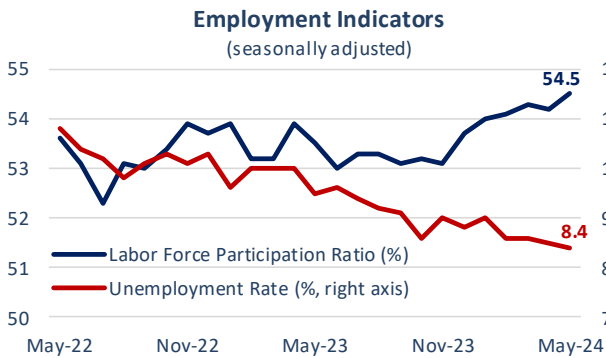
Growth



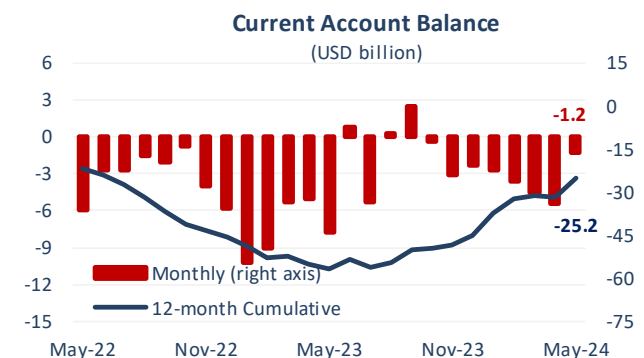
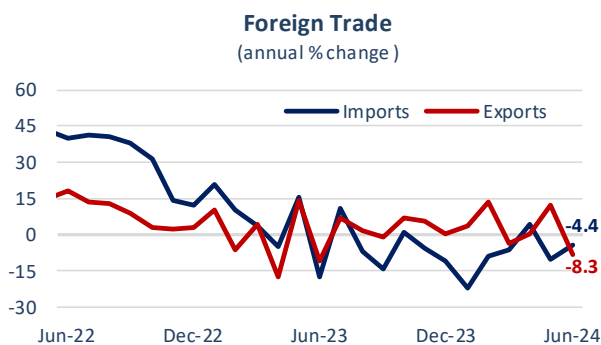
Leading Indicators



Labor Market



Foreign Trade and Current Account Balance

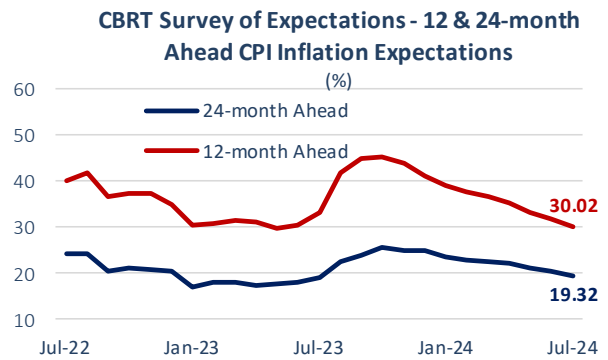
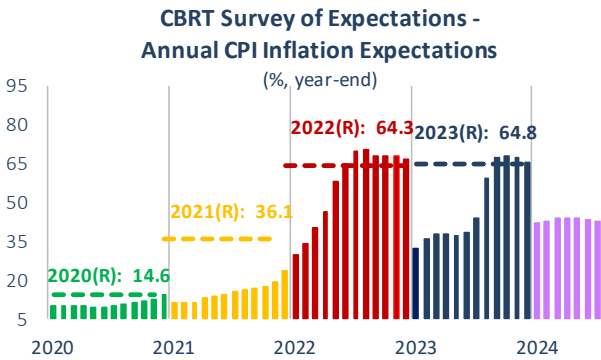
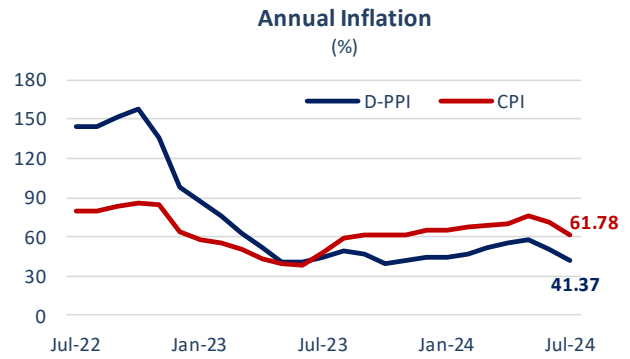
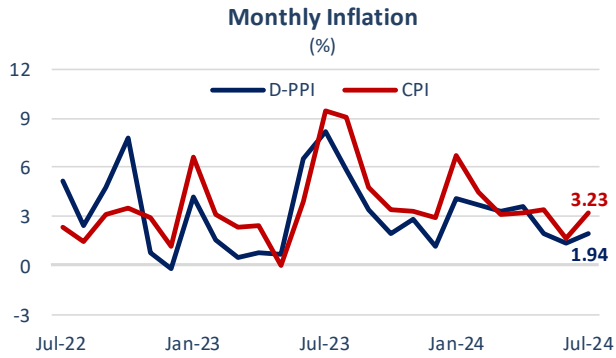


(CA) Calendar adjusted

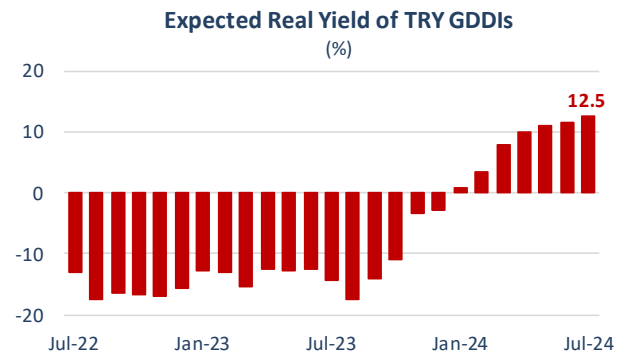
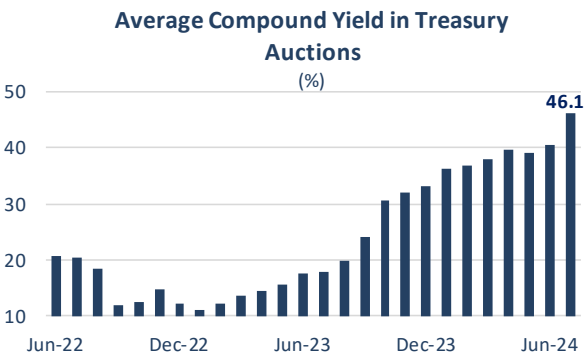
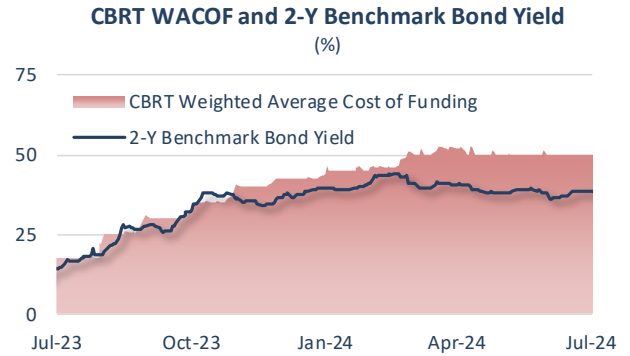
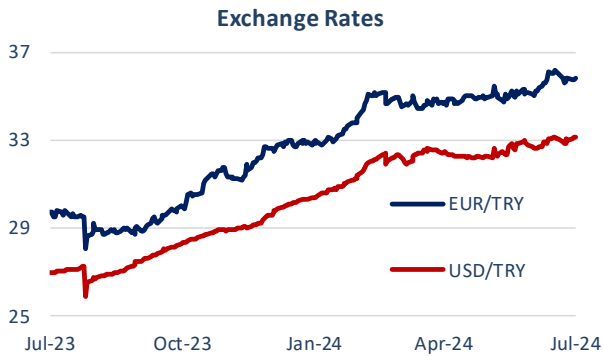
Source: Datastream, CBRT, Turkstat

Turkish Economy - Macroeconomic Indicators

Inflation



Foreign Exchange and Bond Market



(R) Realization

Source: BİST, Datastream, Reuters, CBRT, Turkstat, Treasury

Turkish Economy - Macroeconomic Indicators

Growth	2019	2020	2021	2022	2023	23-Q3	23-Q4	24-Q1
GDP (USD billion)	760	717	808	906	1,119	297	304	286
GDP (TRY billion)	4,318	5,049	7,256	15,012	26,276	7,697	8,431	8,822
GDP Growth Rate (%)	0.8	1.9	11.4	5.5	4.5	6.1	4.0	5.7
Inflation (%)						May.24	Jun.24	Jul.24
CPI (annual)	11.84	14.60	36.08	64.27	64.77	75.45	71.60	61.78
Domestic PPI (annual)	7.36	25.15	79.89	97.72	44.22	57.68	50.09	41.37
Seasonally Adjusted Labor Market Figures						Mar.24	Apr.24	May.24
Unemployment Rate (%)	13.4	12.6	11.0	10.3	8.8	8.6	8.5	8.4
Labor Force Participation Rate (%)	52.6	49.1	52.6	53.7	53.7	54.3	54.2	54.5
FX Rates						Apr.24	May.24	Jun.24
CPI Based Real Effective Exchange Rate	76.0	61.9	47.6	54.9	55.4	61.62	61.99	62.90
USD/TRY	5.95	7.43	13.28	18.72	29.53	32.21	32.78	33.11
EUR/TRY	6.68	9.09	15.10	19.98	32.62	34.97	35.14	35.83
Currency Basket (0.5*EUR+0.5*USD)	6.32	8.26	14.19	19.35	31.08	33.59	33.96	34.47
Foreign Trade Balance⁽¹⁾ (USD billion)						Apr.24	May.24	Jun.24
Exports	180.8	169.6	225.2	254.2	255.4	257.9	260.5	258.8
Imports	210.3	219.5	271.4	363.7	361.8	351.0	347.5	346.4
Foreign Trade Balance	-29.5	-49.9	-46.2	-109.5	-106.3	-93.0	-87.0	-87.6
Import Coverage Ratio (%)	86.0	77.3	83.0	69.9	70.6	73.5	75.0	74.7
Balance of Payments⁽¹⁾ (USD billion)						Mar.24	Apr.24	May.24
Current Account Balance	15.0	-31.1	-6.4	-45.8	-45.0	-31.4	-31.7	-25.2
Capital and Financial Accounts	-1.0	-7.3	-28.7	-35.2	-54.4	-56.3	-52.4	-31.8
Direct Investments (net)	-6.5	-4.4	-6.4	-8.7	-4.6	-3.7	-3.8	-4.0
Portfolio Investments (net)	2.8	9.6	-0.8	13.7	-8.3	-12.5	-15.8	-22.8
Other Investments (net)	2.7	-12.5	-21.5	-40.2	-39.4	-29.6	-26.9	-33.1
Reserve Assets (net)	6.3	-31.9	23.3	12.3	-2.0	-10.5	-6.0	28.2
Net Errors and Omissions	-9.7	-8.1	1.1	22.9	-9.2	-24.8	-20.5	-6.4
Current Account Balance/GDP (%)	2.0	-4.3	-0.8	-5.4	-4.0	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Apr.24	May.24	Jun.24
Expenditures	1,000.0	1,203.7	1,603.5	2,942.7	6,585.5	2,924.3	3,712.1	4,578.5
Interest Expenditures	99.9	134.0	180.9	310.9	674.6	364.5	475.1	574.4
Non-interest Expenditures	900.1	1,069.8	1,422.7	2,631.8	5,910.8	2,559.8	3,236.9	4,004.1
Revenues	875.3	1,028.4	1,402.0	2,800.1	5,210.5	2,233.0	3,240.1	3,831.4
Tax Revenues	673.9	833.3	1,165.0	2,353.4	4,500.9	1,831.8	2,730.2	3,213.4
Budget Balance	-124.7	-175.3	-201.5	-142.7	-1,375.0	-691.3	-471.9	-747.2
Primary Balance	-24.8	-41.3	-20.7	168.2	-700.4	-326.8	3.2	-172.8
Budget Balance/GDP (%)	-2.9	-3.5	-2.8	-1.0	-5.2	-	-	-
Central Government Debt Stock (TRY billion)						Mar.24	Apr.24	May.24
Domestic Debt Stock	755.1	1,060.4	1,354.8	1,905.3	3,209.3	3,563.0	3,712.7	3,891.7
External Debt Stock	574.0	752.5	1,426.5	2,127.9	3,527.3	3,930.1	3,929.9	3,992.8
Total Debt Stock	1,329.1	1,812.8	2,747.7	4,033.2	6,736.6	7,493.1	7,642.6	7,884.5

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

Turkish Economy - Banking Sector Outlook

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2019	2020	2021	2022	2023	May.24	Jun.24	Change ⁽¹⁾
TOTAL ASSETS	4,491	6,106	9,215	14,347	23,550	26,974	28,056	19.1
Loans	2,656	3,576	4,901	7,581	11,677	13,522	13,852	18.6
TRY Loans	1,642	2,353	2,832	5,110	7,894	8,722	8,918	13.0
Share (%)	61.8	65.8	57.8	67.4	67.6	64.5	64.4	-
FX Loans	1,015	1,224	2,069	2,471	3,783	4,800	4,934	30.4
Share (%)	38.2	34.2	42.2	32.6	32.4	35.5	35.6	-
Non-performing Loans	150.8	152.6	160.1	163.4	191.9	211.1	216.6	12.9
Non-performing Loan Rate (%)	5.3	4.1	3.2	2.1	1.6	1.5	1.5	-
Securities	660	1,022	1,476	2,370	3,970	4,420	4,588	15.6
TOTAL LIABILITIES	4,491	6,106	9,215	14,344	23,550	26,974	28,056	19.1
Deposits	2,567	3,455	5,303	8,862	14,852	15,921	16,466	10.9
TRY Deposits	1,259	1,546	1,880	4,779	8,897	9,781	10,336	16.2
Share (%)	49.0	44.7	35.5	53.9	59.9	61.4	62.8	-
FX Deposits	1,308	1,909	3,423	4,083	5,955	6,140	6,130	2.9
Share (%)	51.0	55.3	64.5	46.1	40.1	38.6	37.2	-
Securities Issued	194	224	310	325	584	770	797	36.5
Payables to Banks	533	658	1,048	1,432	2,384	2,790	3,042	27.6
Funds from Repo Transactions	154	255	587	540	723	1,603	1,725	138.6
SHAREHOLDERS' EQUITY	492	600	714	1,407	2,153	2,382	2,466	14.5
Profit (Loss) of the Period	49.0	58.5	93.0	431.6	620.5	233.6	314.0	-49.4
RATIOS (%)								
Loans/GDP	61.5	70.9	68.0	50.5	44.4			
Loans/Assets	59.1	58.6	53.2	52.8	49.6	50.1	49.4	-
Securities/Assets	14.7	16.7	16.0	16.5	16.9	16.4	16.4	-
Deposits/Liabilities	57.2	56.6	57.5	61.8	63.1	59.0	58.7	-
Loans/Deposits	103.5	103.5	92.4	85.5	78.6	84.9	84.1	-
Capital Adequacy (%)	18.4	18.7	18.4	19.5	19.1	17.0	17.1	-

(1) Year-to-date % change

Source: BRSA, Turkstat

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.